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ARIZONA CORPORATION COMMISSION

September 9, 2008

Senator Sylvia Allen
Arizona State Senate
1700 W. Washington, Ste. S
Phoenix, Arizona 85007

Dear Senator Allen:

Thank you for contacting me regarding the recent change the Corporation Commission made with respect to doing away with the 1000 feet free extension in APS's service territory. The change you speak of was brought about by a Gleason amendment in APS's rate case that was completed in the summer of 2007. Chairman Gleason's amendment passed by a vote of four to one, with Commissioner Hatch-Miller dissenting. Since voting in favor of that amendment, I have had second thoughts about the wisdom of my vote, so I appreciate your writing to share with me your perspective on what the loss of the 1000 feet free extension means to our mutual constituents in rural Arizona. I welcome a dialogue with you about this issue. Perhaps we can arrange a time to meet at my office or yours when it is convenient for you.

As a precursor to our meeting, however, I wanted to share with you why I voted for Chairman Gleason's amendment. I believe in the notion that there are "no free lunches" in life. Consequently, one of my deeply held principles is that, barring special circumstances, people should bear the cost of their own lunch, no more and no less. In your letter you reference a situation in which a woman in Taylor, Arizona is doing the labor for a 600 feet line extension to her property and is still being charged \$17,500 by APS. You state that the situation is outrageous, but do not indicate why. Is it because \$17,500 exceeds the actual cost to APS to extend service to her property, or do you believe \$17,500 accurately reflects APS's actual cost to extend service, but think someone other than the woman should pay? If it is the former, I agree with you that it is outrageous. If APS is charging this woman more than its actual cost to serve her, it should be corrected and I appreciate you bringing it to my attention. If it's the latter, however, then I would like to visit with you about whether a special circumstance is present to justify deviating from my general view that people should bear their own cost of service. My view is that since we generally get to choose where we live, we should also generally be prepared to pay the costs associated with that choice.

In the APS rate case, the undisputed evidence was that growth is not paying for itself, with the consequence being that new customers are being subsidized by existing ratepayers. Chairman Gleason offered his amendment as a way to correct the problem of subsidizing growth on the backs of existing ratepayers. I supported Chairman Gleason's amendment, because as I noted

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above, I believe people should pay the cost of *their* service and generally should not be asked to subsidize the decisions of others.

Since voting on that amendment, I have heard from many developers and constituents that had they known the Commission was considering doing away with the 1000 feet free extension, they would have participated in the case and offered evidence suggesting that, in fact, growth is paying for growth, and that the Commission's action has caused them to have to "overpay" for their cost of service. I am very sensitive to these concerns and want to ensure that the Commission has accurate and fulsome information in establishing rates. For that reason, I have supported a call by Commissioner Hatch-Miller that this issue should be evaluated generically, not just in APS's service territory, giving all stakeholders a fair and full opportunity to participate and be heard.

I welcome the opportunity to visit with you about this important issue more in the future. My objective will be to ensure that every ratepayer pays a rate as close as possible to his or her actual cost of service.

Sincerely,



Gary Pierce

P.S. You have heard correctly that free 1000 feet extensions are allowed on Native American Reservations. When we meet, I would be happy to share with you my reasons for supporting that exemption.

Cc: Chairman Mike Gleason
Commissioner William Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kris Mayes